



GCE AS/A level

1132/01



S15-1132-01

ECONOMICS – EC2

P.M. TUESDAY, 19 May 2015

2 hours

1132
010001

ADDITIONAL MATERIALS

In addition to this examination paper, you will need:

- a WJEC 20-page answer booklet (pink), which has been specifically designed for this examination paper. No other style of answer booklet should be used. Should you run out of space, use a standard 4 page continuation booklet.

INSTRUCTIONS TO CANDIDATES

Use black ink or black ball-point pen.
Do not use pencil or gel pen.
Do not use correction fluid.

Answer **all** the questions in Section A.
Answer **one** question from Section B.
Answer **one** question from Section C.

You are advised to spend no more than 55 minutes on Section A.

Use both sides of the paper. Write only within the white areas of the book. Write the question number in the two boxes in the left hand margin at the start of each answer. Leave at least two line spaces between each answer.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets at the end of each question. Section A has 40 marks, Section B has 20 marks and Section C has 20 marks.

You are reminded that assessment will take into account the quality of written communication used in answers that involve extended writing in the second part of the questions in Sections B and C.

SECTION A

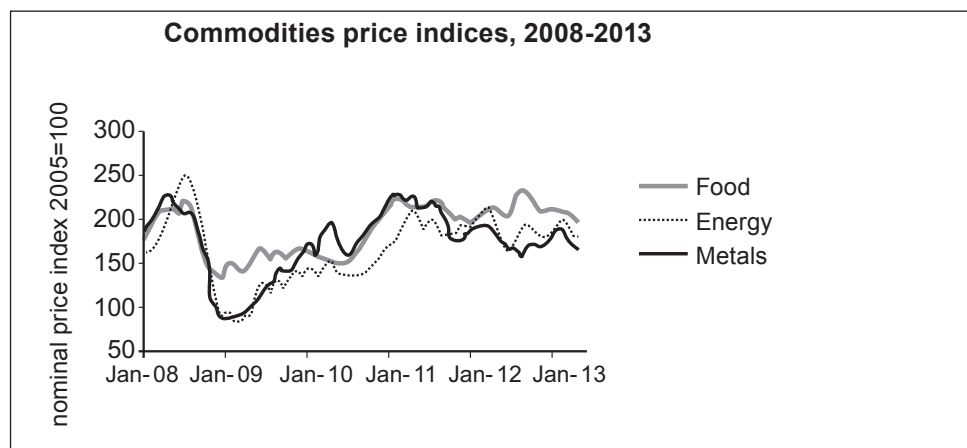
Answer all the questions in this section.

- Study the information and then answer the questions that follow.

Brazil's economy needs rebalancing

Brazil's economic performance over the past decade has been strong, but its success has relied heavily on consumer spending and commodity exports, mostly destined for China.

Figure 1



A commodity boom ...

- Mineral and agricultural products make up more than half of Brazil's exports. Over the past seven years, the value of commodity exports has quadrupled, increasing Brazil's GDP growth. This growth has helped to reduce the government's budget deficit.

- However, commodity prices are not expected to remain strong. Prices were high before 2009, because of strong demand due to rapid economic growth in China, but growth in China is slowing, and the supply of energy and metals is expected to increase as a result of technological advances. As a result, commodity prices have started to fall slightly in recent months (Figure 1) and are expected to fall further in the future.

... but now growth is slowing ...

- The other main source of Brazil's growth was consumer spending. Brazil's government encouraged consumption with wage increases and easy credit, but this consumer boom has led to a combination of high inflation and a loss of competitiveness on world markets, which are now both contributing to falling GDP growth rates.

... and the central bank increases interest rates to control inflation.

- In spite of falling growth, Brazil's central bank has recently increased base interest rates from 8% to 8.5% to control inflation. Whilst this might help to reduce inflation in the short term, the government really needs to improve the supply side of the economy. Many industries face capacity constraints and labour shortages are a significant problem. With investment rates amongst the lowest in South America, held back by complex tax rules and regulations, creating sustainable potential growth looks like a major challenge.

- | | |
|---|---|
| 1 | 1 |
|---|---|

 Explain how the Brazilian government's policies contributed to increased consumption. [4]
- | | |
|---|---|
| 1 | 2 |
|---|---|

 Using a supply and demand diagram, explain why commodity prices are expected to fall further in the future (lines 11-12). [6]
- | | |
|---|---|
| 1 | 3 |
|---|---|

 Explain how rising growth might "reduce the government's budget deficit" (line 7). [6]
- | | |
|---|---|
| 1 | 4 |
|---|---|

 Using an AS/AD diagram, explain how rising consumption might have led to "... high inflation and a loss of competitiveness on world markets" (line 16). [6]
- | | |
|---|---|
| 1 | 5 |
|---|---|

 To what extent will the increase in interest rates be likely to help the Brazilian economy? [8]
- | | |
|---|---|
| 1 | 6 |
|---|---|

 With reference to the data, evaluate policies that the Brazilian government could use if it wishes to improve the supply side of the Brazilian economy. [10]

SECTION B

Answer one question from this section.

2. PRICE ELASTICITY OF DEMAND FOR PRIMARY SCHOOL MEALS ESTIMATED TO BE -0.9

2	1
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 Explain the factors that might cause the price elasticity of demand for primary school meals to be at this level. [8]

2	2
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 Discuss whether the price of school meals should be increased. [12]

3. AVERAGE HOURLY WAGE IN THE UK FALLS TO £11.21 IN 2013, LOWER THAN THE LEVEL IN 2003

3	1
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 Using supply and demand diagrams, explain why average wages may have fallen in the UK in recent years. [8]

3	2
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 Discuss whether a reduction in the national minimum wage would reduce unemployment in the UK. [12]

4. UK DRIVERS SPEND 29 HOURS PER YEAR STUCK IN TRAFFIC. UK HAS 5th WORST CONGESTION IN EUROPE

4	1
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 Explain why road congestion causes economic problems. [8]

4	2
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 Discuss whether road pricing is a better policy for reducing congestion than subsidies for public transport. [12]

SECTION C

Answer one question from this section.

5. BUDGET 2013: FISCAL POLICY TO BE RESPONSIBLE. MONETARY POLICY STIMULUS TO SUPPORT DEMAND

5	1
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 Explain how monetary policy **and** fiscal policy can be used to increase aggregate demand. [8]

5	2
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 Is it more important for a government to achieve low inflation or low unemployment? [12]

6. CORPORATION TAX FALLS TO 20%. MAY FALL FURTHER AS THE CHANCELLOR STICKS TO HIS 'OPEN FOR BUSINESS MODEL'

6	1
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 Explain why increasing investment by businesses is considered to be important for the UK economy. [8]

6	2
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 Should the government increase VAT to 25% to allow for a significant reduction in income tax and corporation tax? [12]

7. WTO WARNS THAT CONTINUED SLOW GROWTH AND HIGH UNEMPLOYMENT MAY LEAD TO RISING PROTECTIONISM AND CURRENCY WARS

7	1
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 Explain how a government could use its exchange rate to increase growth and reduce unemployment. [8]

7	2
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 Discuss whether a country faced with slow growth and high unemployment should introduce higher tariffs on imports. [12]

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